Mitsui Fudosan Co., Ltd.

1H FY2020 Analyst Meeting Q&A Summary

Q. What are the most important messages for the equity markets and investors from your 1H results announcement and briefing? What are your thoughts on an earnings recovery in the next fiscal year?

A. With the exception of hotels in urban locations, we believe all of our businesses are in recovery mode. Near term, our core office leasing and domestic residential sales businesses are firm. The retail facilities business is recovering faster than we had initially expected. Some of our resort properties are also already showing positive YoY growth. However, given the slow recovery in demand from inbound and business travelers, we believe a full recovery for the urban hotels business will take time. For this business, we expect to see lingering effects from the COVID-19 downturn into the next fiscal year. At this time, we cannot comment specifically on next fiscal year's earnings but, excluding the urban hotels, we would expect to get back to close to pre-COVID-19 levels.

Q. Related to the decision to sell the Shinjuku Mitsui Building, please discuss the background to the choice of Nippon Building Fund Inc. (hereafter NBF) as the buyer, in terms of timing and transaction scale.

A. At its base, the Mitsui Fudosan Group's business model incorporates a model of coexistence with investors, combining the generation of profits through the sale of properties we develop and profits from the management of properties after disposition. With this as the backdrop, the choice of NBF as the buyer made it possible for us to retain the Shinjuku Mitsui Building name and to continue our involvement in the management of the property. In addition, we felt this transaction would contribute to the growth of the J-REIT market and the revitalization of the overall real estate transaction market: hence our decision to sell to NBF.

We had been considering the sale of the Shinjuku Mitsui Building for some time. As the COVID-19 outbreak did not appear to be having an impact on transaction cap rates in the real estate market, we were able to reach an agreement with the buyer, setting the stage for a transaction of this scale at this time.

Q. Please explain why you chose to sell the Shinjuku Mitsui Building despite having to post a loss on the sale. Also, please talk about whether there are other assets besides this property that are carrying unrealized losses. For assets with no unrealized losses, would you consider selling a property even if it meant you would incur tax obligations?

A. As a result of the sale of the Shinjuku Mitsui Building, we posted extraordinary losses from an accounting perspective, but we expect that we will be out of pocket from a tax perspective. This is because we marked this property to market in the fiscal year ended March 2002, based on the Land Revaluation Law, raising the book value on an accounting basis. However, on a tax basis, the book value remained low. Our decision to sell was related to the prospect of leveraging the Special Provisions for Taxation in the Case of the Replacement of a Specific Asset to secure deferred tax treatment.

For the remaining properties, there are virtually no unrealized losses so when these properties are sold, we would expect to incur taxes. However, we will explore deferred tax treatment and other options while continuing to focus on balance sheet control.

Q. Investors, primarily US and European investors, are bearish on the office markets. Please discuss the outlook for the office market.

A. There are many differing views, both pessimistic and optimistic, on the outlook for the office market. Our view is that while work from home and shared offices will become increasingly important going forward, the importance of large-scale, high spec fixed offices in central urban locations will likely remain unchanged.

Demand for work from home and shared offices is likely to rise going forward as a way of reducing the impact of commuting on workers. Shared offices, in particular, have advantages in that they provide a clearly delineated working environment and address potential security concerns.

Many companies increasingly understand the limits of work from home. There is a renewed recognition of the importance of bringing people together in a single location. From this standpoint, we believe there will continue to be strong demand for fixed corporate offices in central urban locations, where tenants can benefit from the proximity of a diverse array of customers, regulatory agencies and academic institutions.

In the last few years, Mitsui Fudosan has completed a number of large-scale mixed-use properties in central urban locations. We have also been expanding our multi-location shared office offering for corporate clients 'WORK STYLING'. By providing different work settings appropriate for a diverse array of work styles, including soft services, we believe we will have a competitive advantage in the office market going forward.

Q. With regard to the reinvestment of proceeds generated by the sale of the Shinjuku Mitsui Building, can you discuss the investment hurdle rate, potential target locations or asset classes, and when you expect to start generating profits from these investments?

A. It is highly likely that the proceeds will be reinvested in a central urban large-scale mixed-use development project. For the investment hurdle rate, one reference metric would be the NOI yield of around 5% on mixed-use development projects in central Tokyo. In terms of the timing of profit generation, it will likely take some time, given mixed-use development projects can take between 5 - 10 years to complete and generate cash flow.

Q. You indicated that you have been engaged in discussions with office tenants about how to think about office space in the future. Could you share some specifics, please?

A. As tenants review their overall office footprints, including headquarters and branch networks, many of the consultations revolve around what is the optimal configuration: which are the right neighborhoods or regions and how to think about scale for each location. Tenants are also interested in whether they should replace some of their fixed office space with shared office space.

Q. Given the current share price level, what are your thoughts on share buybacks in terms of scale and timing?

A. With regard to shareholder returns, under the Group Long-term Vision: VISION 2025, our stated policy is to reward shareholders through the payment of stable dividends and a flexible approach to share buybacks. Our target level for total shareholder returns is around 35% of net profit attributable to owners of the parent. This continues to be the basis for how we think about share buybacks. Once we have been able to overcome the COVID-19 outbreak and we are confident that we are well on the way to achieving our VISION 2025 earnings targets, we would like to think about further improving our returns target.

Q. How do you think about the position within the real estate industry that you aim to achieve in each of your businesses?

A. We aim to be number 1 in the industry in terms of profits for each product. However, depending upon the operating environment, the optimal business portfolio is constantly evolving. Ultimately, our goal is to enhance corporate value by maximizing overall net profits.

Q. In the Tokyo Metropolitan office market after 2020, new supply levels are expected to be low in 2021 and 2022 but to increase again in 2023. Please talk about the impact that this will have on your portfolio from 2023 onward.

A. Mitsui Fudosan's properties completed up to 2020 are operating at virtually full capacity. With the exception of the Yaesu 2nd District North Project, we are not expecting large-scale new supply to come on line until 2023. As such, strategies to defend our existing office tenants will be more important. We will work to minimize any impact on earnings through discipline in executing on these defense strategies.

Q. What do you think is the appropriate level or scale for real property for sale (Property Sales to Investors) as well as the total balance sheet including tangible assets?

A. For now, we would view the ¥8 trillion level as a benchmark level for the overall balance sheet. We believe it is necessary to control the overall scale of the balance sheet from a medium- to long-term perspective, including the outstanding balance of tangible assets and real property for sale.

Q. Given the impact of COVID-19, what kind of risk control measures do you think will be necessary to improve the stability of your business?

A. The temporary closure of our retail facilities and hotels for around 2 months following the announcement of a state of emergency had a significant impact. However, our core businesses of office leasing and domestic residential sales have remained firm. I believe that from a risk control standpoint, our portfolio benefited from the diversification effect.

Even after the impact of COVID-19 has been mitigated, we must be prepared for the possibility of yet another outbreak of a new contagious disease. We believe initiatives are necessary to minimize the impact if this were to happen. Economic activity, regardless of whether we are talking about the real estate industry or other industries, requires a certain amount of closed space. We will need to develop safe closed spaces through the adoption of new technologies to improve air circulation, antibacterial properties, sterilization and shifting to non-contact solutions.

Q. As you move toward achieving the appropriate level of outstandings in real property for sale (Property Sales to Investors), how should we think about the potential to accelerate property sales to investors?

A. The outstanding balance of real property for sale (Property Sales to Investors) as of March 2020 was approximately ¥1.2 trillion. Assets available for sale account for a large proportion of the total. Taking into account the necessary time required for development properties from the start of development to completion and sale, our medium-term target is a balance of around ¥1 trillion. We would like to accelerate property sales to investors slightly going forward.